That food prices are not lower in the State is due to the fact that it is a heavily deficit area, and that we have to purchase much of our stock from other parts of India, where we have no control over prices.

Next in importance to the control of these vitally important commodities, in an anti-inflation drive, may be placed direct taxation of incomes. This State, besides imposing income-tax, was, it is believed, the first of all Indian States to impose Excess Profits Tax. Other anti-inflationary measures taken in the State have been the encouragement of the Defence Savings Movement, the adoption of the "inescapability" criterion in the choice of major works and an increase in Anchal rates. In view, however, of recent developments in India, Government consider that further steps may have to be taken to revise taxation; if this proves necessary, a special session of the Legislature may have to be summoned to consider the proposals. The proceeds of such taxation would not be paid into current revenues but into a separate fund, to be called the Post-war Development Fund, to be used for the benefit of the people after peace is restored. We also propose to intensify the drive to encourage investment in Defence Loans and Saving Certificates. I appeal to Hon'ble Members to co-operate in this movement which is so beneficial both to the war effort and to the economic life of the country.

FINANCIAL POLICY

Thus, though the general war situation has greatly improved during the past year, we are still faced with difficulties in India and in this State. It is true that in this State the unemployment problem has been temporarily almost completely solved and that there is plenty of money available, but there is a grave shortage of consumers goods, particularly food. Financially the State is passing through a prosperous period, but depending as we do so much upon the prosperity of the port and upon temporary war-time windfalls in revenue such as receipts from Excess Profits Tax and from timber extraction, it would be unwise not to adopt a cautious policy in regard to expenditure, generally confining new expenditure so far as possible to objects which are either inescapable or are at least essential to carry the State through this difficult period.

A year ago, I stated that in broad outline our financial policy should be to conserve our resources by exercising economy in expenditure other than that necessitated by the peculiar circumstances of our time. Such expenditure was termed "nation-saving", that is expenditure on the war effort and on defence measures, and expenditure on activities and projects designed to increase food production in the State and to provide employment in difficult times. So far as any additional taxation was concerned, it should be designed so far as possible to effect those classes to whom the war has brought additional profits. I feel that in view of the circumstances of today, this policy should still be continued.

ACTUALS FOR 1117

After these preliminary observations, I will now review briefly the budgetary position of the State. It is satisfactory to be able to report that the surplus for the year 1117 was considerably larger than was anticipated in the revised estimates. Against a surplus of Rs. 7·98 lakhs anticipated the actuals were Rs. 18·75 lakhs, out of which the substantial sum of Rs. 15 lakhs was transferred to the Revenue Reserve Fund. The revenue receipts for 1117 exceeded the Budget Estimate by Rs. 19·27 lakhs, mainly on account of large increase under Income-tax, due to revised rates of taxation and the introduction of the Excess Profits Tax, to increased forest revenue mainly due to provision of timber for war purposes, and to increased receipts from the Railway. Expenditure increased by Rs. 5·03 lakhs excluding transfer of Rs. 15 lakhs to Revenue Reserve Fund mainly on account of special expenditure necessitated by the war, and increased expenditure on the Railway.

REVISED ESTIMATE FOR 1118

For the current year we budgetted for a revenue of Rs. 124·36 lakhs, and an expenditure of Rs. 121·18 lakhs, leaving a surplus of Rs. 3·18 lakhs. The revised estimates show a large increase of Rs. 39·72 lakhs in revenue and a considerable increase of Rs. 29·24 lakhs in expenditure, bringing the figures to the record total of Rs. 164·08 lakhs revenue and Rs. 150·42 lakhs expenditure. The surplus is thus Rs. 13·66 lakhs or Rs. 10·48 lakhs more than was anticipated. Increases in Income-tax, Railway, Forest and Excise receipts account mainly for the striking rise in revenue.

The increase in expenditure is mainly due to special conditions created by the war. Considerable increases in expenditure on the Railway (Rs. 6·83 lakhs) and on Forests (Rs. 1·87 lakhs) are far more than counterbalanced by larger receipts. Another main cause for higher expenditure was the acute food problem facing the State, which necessitated the launching of a

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scheme for clearing and planting large areas of forest at a cost, during the year, of Rs. 7·20 lakhs, and increasing the Supply Department staff. The rise in the cost of living necessifated an increase in dearness allowance, the total expenditure amounting to Rs. 4·7 lakhs.

PORT AND RAILWAY

For security reasons it is not possible to give the usual account of the working of the Port. It may, however, be said that present conditions and future prospects are alike generally satisfactory.

The net earnings to the Cochin Government from the State Railway were estimated on the advice of the Railway Company at Rs. 7 lakhs in the Budget Estimate of 1118, but due to increase in traffic, the earnings for 1118 are now estimated at Rs. 14,74,000, representing interest of above 12 per cent on the capital cost. The Budget Estimate for 1119 provides for net earnings of Rs. 13,40,000.

REVENUE RESERVE FUND

The Revenue Reserve Fund continues to grow. A sum of Rs. 15 lakhs from the actual surplus of Rs. 18·75 lakhs for the year 1117 has been credited to the fund, and Rs. 2 lakhs will, as in this year, be allocated from the fund for Rural Development, once again mainly for minor irrigation schemes designed to increase food production. The balance in the fund will then be Rs. 33·75 lakhs, available either to meet unforeseen developments during these unsettled times, or to be available for beneficial schemes to be undertaken after the war is over.

STATE'S ASSETS

The general financial position of the State continues to be eminently sound. The figures of assets and liabilities, swollen due to Government taking over the purchase and sale of foodgrains and of standard cloth, show that the total liabilities of the State at the end of 1119, including the various deposit funds will be Rs. 3,15,91,916 and the assets Rs. 4,62,67,881, showing an excess of assets over liabilities of Rs. 1,46,75,965, compared with Rs. 1,16,81,265 at the end of 1117 and Rs. 1,30,47,065 at the end of this year.

STATE LOAN

The State's 5 per cent debenture loan of Rs. 75 lakhs raised in 1933 matures on the 1st October 1943, and it has been decided to redeem it and to raise a conversion loan of Rs. 70 lakhs at 3 per cent, repaying Rs. 5 lakhs from the general balances. The Government decided not to repay more than Rs. 5 lakhs, despite large revenue surpluses, mainly because it is necessary at this time to have large liquid resources available for emergency purposes such as grain and cloth purchase and for other expenditure which may be necessary during and shortly after the present emergency. Considering our general resources the debt burden has to be considered small and it may be noted that provision has been made for a Sinking Fund at 3 per cent on our total public debts.

BUDGETARY POSITION

For the coming year we have budgetted for a record revenue of Rs. 1,83·17 lakhs, and for a record expenditure of Rs. 166·88 lakhs, leaving a surplus of Rs. 16·29 lakhs. The increase in revenue is mainly due to—

(1) increase in Customs due to more extensive use of the Port;
(2) increase in Abkari revenue due to the greater spending power of the people;
(3) increase in forest revenue due to larger extraction of timber for war purposes; and
(4) receipts from the sale of crops grown in the Hill Paddy Scheme area.

The most notable increases in expenditure are under Agriculture, in the new department of Village Courts, under Excise where special provision is made for the manufacture of salt, under Forests and Tramway due to increased extraction, under Ayurveda, under Police and Military and under Supply Department staff and Hill Paddy operations and under Sinking Fund. It will be noticed that the increase in revenue is mainly due to causes which are temporary and are the outcome of the present emergency, and while much of the increase in expenditure is also due to temporary causes, it is obvious that caution has to be exercised in undertaking schemes involving recurring expenditure of a permanent nature, as a steep drop in revenue may have to be faced after peace is restored. Hence our policy has been both to scrutinise each item of new expenditure to see whether it is essential in the present unusual circumstances, and also to continue to build up substantial reserves to meet future contingencies.

In his budget speech for the year 1114 my predecessor made an interesting comparison between the budget of 1115 and that of 1105. A similar comparison between that of 1119 and of 1109 is equally instructive. The total expenditure of the State in the year 1109 was Rs. 90·43 lakhs and the budgetted expenditure for 1119 is Rs. 166·88 lakhs. The increase in total expenditure is Rs. 76·45 lakhs, and it will be found that there has during the same period been an increase in expenditure on what are known as the nation-building departments of Rs. 18·3 lakhs from

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